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THE SOCIETY OF INDUSTRIAL AND COST
ACCOUNTANTS OF ONTARIO

DECEMBER - 1942

THE CANADIAN SOCIETY OF COST ACCOUNTANTS & INDUSTRIAL ENGINEERS

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• EDITORIAL •

After Victory—What?

Recently we had an opportunity of listening to a remarkable address by Mr. James S. Duncan, President and General Manager of the Massey-Harris Company of Toronto, on the subject "After Victory—What?". While we may not agree with everything that Mr. Duncan said in his address, we do agree — and in this we are by no means alone — that while it may be necessary in War time for some measure of economic control, we do feel that unless the people generally take some strong action, when the war is over we will be faced with a continuance of such control and all the restrictions which it implies.

We have recently heard Mr. Wendell Willkie and Mr. Snyder, Deputy Attorney-General of the Province of Ontario, speak along similar lines and indications are that we are building up a form of government by bureaucratic agencies rather than by Parliament, and this may go too far, even in war time.

Everyone realizes that in a War of such magnitude there must be some form of control if we are to escape the evils which followed the last war, but surely there is no necessity for government solely by Order-In-Council and where the rights which belong only to Parliament are delegated to other government agencies.

Recent events have proved that to some extent, the rights of courts of law have been taken over by government agencies or boards, and this is one thing we should not allow—even in war time. We are constantly being told that we are fighting for Democracy, for freedom or for our way of life, but we are fighting for more than these things, we are fighting for the common decencies of life. And yet we are rapidly building up a form of bureaucratic government which may not only have a harmful effect in war time but which will indeed be hard to break when the war is over.

We may not have too many controllers of this and that, but we evidently do have far too many little tin gods whose word is absolute and who obviously take upon themselves duties which rightfully belong to courts of law. If such a situation does not undermine democracy, we do not know what does.

As a matter of fact, the situation instead of spurring the people on to a greater war effort, is having just the opposite effect. You can't make people mad at the enemy by setting up a despotic type of government, surround them with restrictions (many of which do not appear to have any real bearing on the war effort) and at the same time allow them to see waste in both manpower and money under their very noses. This kind of thing simply makes them disgusted.

It might be well for some of us to think seriously about this situation and to insist that all democratic rights are not taken away from us, even in war time, unless such action actually does further the war effort.

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Moreover, all of us will have to pay more attention to what is likely to happen after the war is won. We know that it is popular to say that everything must be subordinated to the task of winning the war but even after a military victory it is possible for us to lose the war by not demanding all that we are fighting for.

After victory—what? That depends upon you, and you, and you.

The Man Power Situation

The expected has happened—Mr. Elliott M. Little, the Director of National Selective Service has resigned. For some time past there have been rumours that all was not well between Mr. Little and the Minister of Labour, Mr. Mitchell. Naturally, all are concerned with the reasons for Mr. Little's resignation, and after reading his letter of resignation to Mr. Mitchell one is of the opinion that perhaps there are factors on both sides.

However, we seize on one of the several reasons given by Mr. Little in his resignation, and that is lack of co-operation with other departments. Is this not very true in connection with all phases of our war effort? In other words, is there any co-ordination at all between our various government departments?

We have seen in the past a definite lack of co-operation between National War Service and the Department of Munitions and Supply, and no doubt this lack of co-operation extends to many other government departments. We are rather inclined to the belief that this lack of co-operation is due to the fact that so many new boards and government agencies have been set up with new controllers and new personnel.

These new boards, or agencies, are given a job to do, an important job, and it may be that the very importance of the work of an individual board or agency is the real cause of the lack of co-operation. This is not only confined to government agencies, it spreads much further in our war effort. Labour poaching, which exists in our war industries, is a concrete example, and it seems to us that in many, many instances government agencies and industries are working for themselves alone.

If an industry has war orders which must be produced, that industry needs man power, and it is no doubt a fact, obtains that manpower regardless of the needs of other war industries. The Department of National Defense needs men for the armed forces and takes those men from industries, regardless of the needs of the industries. We believe that a system of national selective service which is operated solely in view of the war effort as a whole is very necessary, but it can only be made to operate successfully if the complete co-operation of every phase of our war effort is obtained. Government boards or agencies or departments and war industries should not be working for themselves, they should be working for Canada.

Across the Secretary's Desk

There is every evidence that the arrangements made between the Society of Industrial and Cost Accountants of Ontario and the various Ontario Universities is going to have a very beneficial effect on the membership in the near future. Although the arrangements were completed at a date too late to get away to a good start for this season, we have had hundreds of enquiries regarding these lectures and quite a number of registrations. All this leads me to believe that we have embarked upon something that will constantly drive new blood into the society and form a splendid nucleus for future senior members.

We heard with extreme regret, too late for our last issue, of the untimely death of Mr. Austin H. Carr, C.A., a member of our Toronto Chapter and Secretary of the Dominion Institute of Chartered Accountants. Also of the passing under rather tragic circumstances, of the father of Mr. Stan Stott, a long time member of the Hamilton Chapter. Most recently we were shocked to hear of the death in Montreal of Mrs. E. J. Loiselle, wife of Ed Loiselle, Vice-President of the Society and past Chairman of the Montreal Chapter. Needless to say, I, along with all members, deeply regret such passings, and extend to those concerned most sincere sympathy.

More and more of our members are joining the armed forces. Recently we had a visit from Harold Gisel of our Niagara Chapter who was leaving to join the army. Harold Fox, also of the Niagara Chapter, is in the army and is stationed somewhere in eastern Canada. We noticed the other day that Cy Ridgers, formerly of the Hamilton Chapter, now a Pilot Officer in the R.C.A.F., had arrived overseas. Mac Dingwall of the Hamilton Chapter is in the Army, and Herb Woodhouse, also of the Hamilton Chapter, is in the Navy.

These young men are doing a job for those of us who are compelled to stay at home, and we wish them good luck and a safe return.

Once again Christmas is rolling around and although this message will reach many of you some weeks before December 25th, please accept my most sincere wishes for a Happy Christmas.

R. D.

New Members

Hamilton Chapter.

- Miss Ida M. McEachern, Quaker City Chemical Co. of Canada Ltd.
- Miss Louise I. McEachern, Quaker City Chemical Co. of Canada Ltd.
- S. H. Wilkins, Better Business Unlimited.
- J. C. Hutcheson, T. W. Hand Fireworks Co., Ltd.
- Miss Anne Rocchi, H. Franklin Baker.
- Miss Eleanor Bartnick, H. Franklin Baker.
- Miss Mary Rocchi, Vallance Brown & Co., Ltd.
- Miss M. McIndoe, Irvington Insulation & Varnish Ltd.

CHAPTER NOTES

W. R. Ward, United Gas and Fuel Co., Ltd.
L. Simenton, Wallace Barnes Co., Ltd.
R. McNaught, Otis-Fensom Elevator Co., Ltd.

Montreal.

Henri Legault, Montreal.

Windsor.

R. G. Steel, Steel Finance, Windsor.
F. Hubbell, Bendix Eclipse of Canada Ltd.

London Chapter.

H. Mickle, Central Aircraft Limited.
J. J. Masse, Central Aircraft Limited.

Niagara Chapter.

G. W. Gilchrist, Hayes Steel Limited, Merritton, Ont.

Ottawa Chapter.

R. W. Stark, Renfrew Electric & Refrigerator Co., Ltd., Renfrew, Ont.

Chapter Notes

Montreal Chapter:

Mr. G. F. Racine of the Aircraft Division of Canadian Vickers Limited, gave a most interesting talk before the Montreal Chapter on Friday, November 13th, on the "Simplification of Cost Records." This was a very fine meeting with a good attendance of members, and it is safe to say that everyone present considered it a well spent evening.

The next meeting of the Chapter will be held at McGill Faculty College on Friday, November 27th when the speaker will be Mr. John Rae, Chief of Routine Efficiency, Bank of Montreal, whose subject will be "This Job of Office Management."

Toronto Chapter.

The next meeting of the Toronto Chapter will be held on Tuesday, November 24th when Mr. J. M. Thompson, Assistant Comptroller of the Canadian Westinghouse Company Limited will speak on "Payroll Methods." This should be one of the best meetings of the season.

Hamilton Chapter.

There was a large turnout on November 18th at the Royal Connaught Hotel to hear a very splendid address given by Br. E. D. Graham of Stevenson & Kellogg Limited, and a valued member of the Toronto Chapter. Mr. Graham spoke on "The Art of Management" and so impressed his hearers that he will be welcomed back at any time in the future.

Kitchener Chapter.

Due to various causes there was only a relatively small attendance at the meeting of the Chapter on November 18th, when Mr. H. P. Wright, R.I.A., President of the Society of Industrial and Cost Accountants of Ontario, addressed the members on "The Registered Industrial Accountant, His Opportunities and Responsibilities." Mr. Wright was cordially thanked at the close of a meeting which was most enjoyable.

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Edmonton Chapter.

The Edmonton Chapter held a most successful meeting at the Corona Hotel on October 30th. The meeting was well attended and the speaker, Mr. W. Stuart Johnstone, F.C.A., gave a most interesting and instructive talk on "Corporation Income and Excess Profits Tax." This was one of the most successful meetings yet held by the Chapter.

Windsor Chapter:

The October meeting of the Windsor Chapter was well attended by members and guests to hear a most instructive talk by Professor Gilbert Horne. A lengthy discussion took place at the close of the address, both in connection with the value of ratios and the balance sheet presentation of the refundable portion of the Dominion Income Tax. This was a most successful meeting in every respect.

On November 26th Mr. Frank R. Bear, B.S., Secretary, Stokely Van Camp of Canada Limited, will speak on "Accounting For Raw Material in Food Canning."

Niagara Chapter.

There was an excellent attendance to greet Mr. Harold P. Wright at a meeting of the Niagara Chapter held at the Leonard Hotel, St. Catharines, on Tuesday Evening, November 24th. Mr. Wright spoke on "The Registered Industrial Accountant, His Opportunities and Responsibilities," and was accorded a hearty vote of thanks at the close.

The next meeting of the Chapter will be held on Monday, December 14th when Mr. J. P. Healy, Controller of the Curtis-Wright Company, Airplane Division, Buffalo, N.Y., will speak on "The Controller's Commentaries on Cost-Plus Contracts."

London Chapter.

A really good attendance turned out for the November meeting of the Chapter held on Thursday, November 26th. The Secretary-Manager of the Society was present and outlined the history of both the Canadian and Ontario Societies. Later the members took part in an extremely fine discussion of numerous cost problems.

Literature Received

Application of Standard Costs TO An Operating Budget.

N.A.C.A. Bulletin, October 1st.

Despite the war and all the extra work that it entails for cost accountants, cost control is even more important to-day than ever. This article is an extremely valuable contribution to cost control literature.

Proposed Procedure for Determining Machine Capacity.

N.A.C.A. Bulletin, November 1st.

Expense Budgeting.

N.A.C.A. Bulletin, November 1st.

These two articles emphasize the importance, even in war time, of the planning and control features of industrial accounting and should be read by every industrial accountant.

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Control and Allocation of Expenses Under Abnormal Conditions.

The N.Y.C.P.A., October.

A most complete and interesting article on a very timely subject.

Factory Costing, Part III: The Application of the System.

The Federal Accountant, September.

This article is Part III of Factory Costing, and explains in detail the application of the system.

Staff Training.

The Federal Accountant, September.

A short but informal article on a very interesting subject.

Christmas Greetings

By the time these lines are read Christmas will be very close to us. At such times our thoughts travel and we think of the many kind friends we have made through our connection with the Canadian Society of Cost Accountants and Industrial Engineers. This Christmas the war news is considerably brighter than it has been. We cannot relax our efforts but we can, with justification, look with confidence for a brighter future.

All of us are extremely busy but not too busy to send through "Cost and Management" on behalf of the officers and directors of the Society our most sincere wishes for a most happy Christmas and a prosperous New Year to every member.

P. W. WRIGHT, L.C.M.I.,
President.

R. DAWSON, R.I.A.,
Secretary-Manager.

ATTENTION!

From time to time we receive requests from our Western Chapters to have Eastern members who may be visiting the West, call on our Chapters there. Any member, who can address the Chapters and is willing to do so will be doubly welcomed, but members who merely wish to pay a courtesy call will receive a royal welcome. Remember the fellows out West are far away from Headquarters, and a visit on your part when in the vicinity will do a lot to help them.

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Priorities

Address by MR. ANTHONY TURNER

Priorities Division of The Ford Motor Company of Canada, Limited,
To Society of Cost and Industrial Accountants of Ontario, Windsor Chapter,
at the Norton-Palmer Hotel, October 1, 1942

Gentlemen:—

I would request your indulgence if I adhere very strictly to my written address. As you know only too well there is nothing static about the Priorities System. What was a fact yesterday is no longer so to-day.

You are indeed fortunate to be members of a profession which I presume is basically a fairly exact and understood science. Therefore I wish to avoid any possibility of offending the sensibilities of those who may possess them.

It was my privilege to address this Association in April of this year. At that time, as many of you who were present will recall, the subject in question was mainly devoted to the "History of the Priorities System" from its inception.

Mr. G. W. Withell had prepared this address and was to have presented it when he was suddenly called to the Priorities Branch, Department of Munitions and Supply, Ottawa, to assume an important administrative position. He had looked forward to this invitation with more than usual interest so that it gave him great pleasure to receive word from your Secretary that his address by proxy had proven of interest to those of you who were present.

I would like at this point to impress on my listeners that I speak to you to-night as an individual without affiliations or connections with any Company, and anything I say to-night should not be taken as an official interpretation of the Rules and Regulations as laid down by the Priorities Branch, Department of Munitions and Supply, Ottawa, or the War Production Board, Washington, D.C.

As is only right those connected with the Priorities Branch of the War Production Board and our Department of Munitions and Supply are vitally interested in the exact interpretation of all matters concerning Priorities.

Being conscious of this fact and fully aware of the great and vexing problems which at all times beset the Priorities Branch, I do not wish to add to them. Let us be fair and admit although we get dizzy sometimes filling out forms they are tackling a job which had to be done by someone and they certainly should receive our fullest co-operation and goodwill at all times.

The Priorities System has developed so rapidly, in such a short space of time, that it would be foolish and presumptuous to pose as an expert and authority in all its manifold branches.

Many of the Priority Orders and Regulations, as most of you who have had occasion to delve into them, will agree, are quite involved and, judging by my personal experiences, may be interpreted in practically an unlimited

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number of ways by the rather facile mind of the average business man, Cost Accountants included.

It is doubtful indeed if there is any one individual who could answer all questions concerning Priority Procedure without recourse to the printed regulations, before expressing an opinion.

It is my suggestion therefore, that after a brief survey of the Priorities System from its inception up to the present time that we open up a general discussion on an informal basis in order that we may attempt to iron out any individual Priority problems which may beset us, and if we fail in some cases as no doubt we shall, we may probably ascertain the proper authority in the Priorities Branch, Department of Munitions and Supply at Ottawa, to whom we may appeal for the answer.

However, so as to afford those present something to "bite on" of more solid substance than that which might be afforded by my own personal experience and viewpoint, I intend to quote from statements which have been issued by those in authority to do so.

Of course it should be born in mind in fairness to those responsible for their utterance that although they bear the mark of authority recent changes in priority procedure may have impaired their validity. In spite of this possibility they obviously help provide a more solid basis for any discussion which may follow this address than any opinions I may myself express.

In order to make clearer the events leading up to the establishment of what is known as the "Production Requirements Plan" it might be helpful to a better understanding of the subject as a whole, if we refresh our memories by recalling some of the major changes which have taken place since Priorities came in being.

The Priorities System came into general use in the spring of 1941 with no thought in mind of curtailing the production of civilian goods. The main objective was directed to ensure that military requirements received precedence over civilian requirements.

Preference ratings were established ranging all the way from double A which were for emergency directive orders only: The A-1 series from A-1-A to A-1-K, A-2 to A-10 down to the B-1 to B-8 series which latter ratings were for civilian production only.

The P.D. 5 form of Certification came into general use in Canada and was not designed to conserve paper as it required no less than 13 to 14 copies for each application and was never intended for large scale usage. However as plans are seldom made by men but rather by force of circumstances, which leaves no alternative, this somewhat cumbersome system of Priority certification extension was designed to a sudden and not untimely demise.

Material shortages began to loom on the horizon around the month of September 1941, and manufacturers found that priority certificates were absolutely essential in order to ensure delivery on schedule of those materials which were listed as critical such as Nickel, Brass, Copper and a few others.

From that time until March 16, 1942, matters became rapidly worse, and no longer did a priority certificate guarantee delivery on schedule of materials on the critical list.

P.D. 5 certificates were issued by the thousands and approval of applications for ratings were delayed many weeks. On March 16, 1942, the P.D. 3A certification came in existence and replaced the P.D. 5. This new system

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required certification on the Face of the Purchase Order or by certification attached to the Purchase Order and a Blanket Rating was assigned to cover materials which would be physically incorporated into the finished product.

In spite of these simplifications and speeding up of the issuance of certifications each passing week left the basic problem, that of critical material shortage, unsolved—and becoming increasingly serious.

Wholesale raising of ratings gave only temporary relief to those who received them, but at the same time seriously impaired the effectiveness of such blanket ratings as the A-10 under P-100 covering materials for Repair, Maintenance and Operating Supplies.

The System under which Preference Ratings were issued bore no relation whatever to the materials available.

The gap between available supply and current demand was being widened every passing day, such a situation demanded a drastic change in procedure if a complete collapse of the Priorities System was to be averted.

This was brought about by the introduction of the "Production Requirements Plan". Briefly its purpose is to control and allocate materials to industry on a quarterly basis where they are most needed. With certain exceptions all firms who consume more than \$5,000.00 worth of metals per quarter are required by law to operate under this plan. Other firms wishing to secure ratings under the P.R.P. may apply to the Priorities Department, Department of Munitions and Supply, Ottawa, for approval.

As many of you of course know, Mr. G. L. Jennison heads the department responsible for the administration of the "Production Requirements Plan" for Canada and enquiries should be addressed to his attention, Priorities Branch, Department of Munitions and Supply, Ottawa.

There are two numbered forms in use under the "Production Requirements Plan", the P.D. 25A which must be submitted every quarter and the P.D. 25F which may be used for interim assistance.

This system allows a manufacturer to order three months in advance, and to keep a normal inventory on hand.

It also provides a rating with which to secure Repair, Maintenance and Operating Supplies upon the same basic rating applied.

The Original Form under which the "Production Requirements Plan" was first presented was extremely complicated, so much so, that it became readily apparent that a simplification would have to be introduced. This was done, and a modified P.R.P. Form was brought out for the quarter commencing July 1st.

I quote now from an address delivered by Mr. G. L. Jennison, Priorities Branch, Department of Munitions, Ottawa, as follows:

(The quotations were from an address of Mr. Jennison at the "Priorities Conference" held at the 71st General Meeting, Canadian Manufacturers' Association, Royal York Hotel, Toronto, June 8, 9 and 10, 1942, and prepared for distribution in pamphlet form. The address cannot be reprinted without permission of the Canadian Manufacturers Association, but if application is made, by those interested, to the Canadian Manufacturers Association a copy can no doubt be secured. The references to questions and answers appearing in this same pamphlet.)

Some questions and answers were recorded at this meeting and I have selected seven, which I believe answer questions most often asked:

AFTER VICTORY—WHAT?

- "Question 8 and answer.
- 10 and answer.
- 13 and answer.
- 16 and answer.
- 22 and answer.
- 29 and answer.
- 33 and answer.

May I suggest that those of you who wish to become better acquainted with the "Production and Requirement Plan", could do no better than study the "Supplementary Instructions for Submitting Canadian Applications on P.D. 25A" issued by the Priorities Branch, Department of Munitions and Supply, Ottawa.

The following information should be of general interest and is included in these instructions. I quote:

"Definitions:

- (a) Limitations: A P.R.P. Certificate by which ratings are assigned under Productions Requirements Plan may not be used by Canadian applicants to obtain material in the United States which can be obtained in Canada within a reasonable period of time,
- (b) Values: All dollar values given should be in Canadian Dollars throughout.
- (c) All correspondence and applications should be addressed to P.R.P. Section, U.S. Priorities Division, Priorities Branch, Ottawa."

Little purpose would be served by detailing the necessary steps to follow in order to complete the various Sections of the P.R.P. Form before you, if you are unfamiliar with this form. Furthermore the printed Instructions are extremely clear and to the point, and added to this I cannot for the life of me imagine any group of men who would possess greater confidence in their ability to successfully undertake the preparation of a P.R.P. Form than a gathering of cost accountants.

After Victory—What?

Address to The Society of Industrial and Cost Accountants of Ontario,
Toronto Chapter, October 20th, 1942

By JAMES S. DUNCAN,
President and General Manager, Massey-Harris Co., Ltd.

Mr. Chairman and Gentlemen:

I accepted all the more readily the invitation extended to me by your President, Mr. Harry Metcalfe, first, because you have in him a man of proven ability, of fine integrity and of unswerving loyalty, with whom I have had the pleasure of being associated for many years; and secondly, because I have always been interested in the Canadian Society of Cost Accountants and Industrial Engineers, and the things for which your organization stands. This interest has been quickened by the initiative which you have taken to confer the degree of R.I.A. on those of your members who have been successful in passing the required examination, thereby enabling the industrialists

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of this country to select cost accountants from men of proven ability and background.

I am also interested in your Society because of the important contribution which cost accountants and industrial engineers are making to Canada at war. Playing a part in this conflict is the only thing which really counts to-day. God grant that our sons and our grandsons and we ourselves again will know this country as it used to be—a nation not of swords but of plowshares.

And yet if this is to be, certain things must be brought to pass in the meantime, and thus I come to the subject of my address.

Let me say at the very outset, and this with all the earnestness of a strong conviction, that I believe victory for the United Nations is certain, and furthermore that I have sufficient faith in the realism, not only of the American and the British, the Russian and the Chinese people, but of all those suffering nations which have lived for years under the heel of the oppressor, to believe that when once the tide has turned, we shall follow through to complete and unequivocal military victory. I can see no hope for this world without that.

The two oppressor nations, which in cold reasoning, soulless greed and shameless ambition, set out to conquer and subjugate not only their weaker neighbours but the whole world, must be crushed so decisively that they will cease to be a threat to mankind, and their peoples must be so punished that they will learn for all time that this brutal defiance of all the laws of God and man does not pay.

My feelings of optimism and conviction concerning the final outcome of this war is based not only on the fact that the weight of advantage is on our side but because I earnestly believe that when once free men are aroused, when they have finally decided that death is preferable to humiliation and slavery, they unleash upon their tyrannical and regimented foes a force which cannot be withstood.

It is upon this solid rock of conviction in complete military victory that I have anchored my argument concerning the type of world in which we may find ourselves living when victory is achieved.

And this victory—what will it be?

Having had our outlook much broadened by adversity, can we have any further use for victory than to make global use of it; in other words, to create such equitable political and social conditions throughout the world's five continents that man's fertile invention would at last be able to bend the earth's rich resources to the betterment of the whole human lot? Any vision narrower than a global vision is surely unthinkable to-day, is surely profoundly unpractical.

But before looking forward into the future, let us take stock of the present. Let us see where we stand.

Time, unfortunately, allows me to touch only upon the economic side of our present position and upon the economic possibilities inherent in complete victory.

To fight totalitarianism, the Western democracies have introduced controlled economy. I have no quarrel with this. On the contrary, I believe that such a policy is necessary, for war is too serious a business to be left entirely to voluntary effort or voluntary regimentation.

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I am sure I need not tell this audience that many of these controls have been imperfect, confused, contradictory and harmful. We are inclined at times to compare unfavourably our efforts with those of our enemies, whose smooth-ticking economic mechanism appears to be so much more satisfactory than our own, but we should not forget that we have been working at it for only two and a half years, whereas both Japan and Germany have been operating a war economy for at least fifteen years under only the thinnest of camouflage.

I am convinced that as we enter deeper and deeper into this all-embracing war, the controls governing our daily actions will steadily increase. I am optimistic enough to believe, however, that as we become more practiced in the art of controlled economy, we shall become more expert in it.

It is the irony of fate that to fight totalitarianism abroad one must accept it to an ever-increasing degree at home, but I believe that so long as this war lasts, this will have to be so.

The job which you and I are facing in this Dominion of Canada—a job, which, to my mind, is second only in importance to winning the war—is that of taking the necessary measures to ensure that the liberties which we have voluntarily surrendered so that this war might be successfully fought will be regained when peace is restored once more.

In this welter of new economic theories, of controlled economies, of allotments, of restrictions, of mandatory decisions, let us keep this main fact clearly before us: that we are fighting against totalitarianism, and that we must see to it that, having defeated it in the person of our enemy, we have not inherited it ourselves.

What is it above all that we want out of our hard-won peace? Can we not sum it up in one heart-catching word—democracy?

However much our cynical enemies may jeer, it is for the preservation of democracy that we are fighting: it is for this cause that the youth of our country are prepared to lay down their very lives.

In its time, mankind has made many experiments for its own betterment—social, political, religious and economic—and started making them many, many centuries before the Anglo-Saxon people had even learned to read or write.

We can do worse than to see what has gone before us. Our troubles in 1942 are not unique. They have indeed not suddenly sprung upon mankind just to plague us of this generation. Let us go down the corridor of time together and see how a people in the past met our coming problem, after having gone through what we are going through to-day.

And of all the peoples who laboured in the past only the experience of one can carry any conviction, for it still strides the good earth—I, of course, refer to our Allies, the Chinese.

We, the North Americans and the Europeans, are plagued to-day by the threat of complete totalitarianism for the first time in our history. The Chinese people fought and destroyed complete totalitarianism twenty-one centuries ago in the form of the Chin State, which for fifteen years ruled the whole of China and attained a perfection of regimentation which makes the Nazis look like small town amateurs, for it was run by a fanatical bureaucracy of impeccable integrity. This system was overthrown by the people. Two centuries later, a usurper of the Dragon Throne tried another brand

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of totalitarianism, and it lasted for thirty-four years. Their theories were similar in many respects to those of our advanced Socialists of to-day, but they were again overthrown by the forces of democracy. Ten centuries later, around 1066, another generation had imposed upon it another type of totalitarianism, which had a certain affinity to the Communism of to-day. Again, the people rose up and threw off the yoke. From that day to this, the forces of democracy have ruled triumphant.

The lesson which we have to learn from the experience of the Chinese is that from all these three experiments of extreme regimentation there emerged the same lesson, namely, that progress and prosperity were only possible under freedom of enterprise, and that totalitarianism places a stranglehold upon the life of a nation.

So, with the authority of China's long experience behind us, we Western democracies are right to feel that the creative faculties in us can never be fully exercised unless we have the freedom of the spirit that true freedom of enterprise alone can give.

I believe in democracy. I believe in democracy because it is the only system of government devised by man which can bring benefits to the whole of a nation. Despotic systems bring benefits to only a few, and at the expense of the many. The capitalistic system has undoubtedly made the rich richer, but it has also made the poor richer. The capitalistic system has given this North American continent of ours the distinction of having conferred upon the masses of our people a greater degree of prosperity, a larger share of the good things of life than has ever been enjoyed by the peoples of any other nation in any part of the world.

On the contrary, the despotic system—in other words, totalitarianism—makes the rich richer, but the poor poorer.

Some of us in this room have risen to the top in our own sphere, and although we would all defend our just rights to the limit of our abilities, we want to see all men prosper. We just do not want to keep the masses down, not only as a matter of policy but of humanity also, whereas the only way in which a despotic system can function is to be totally without humanity towards the masses of the people.

In that one word "humanity," I believe we have the clue to the difference between the two systems. The Nazi and Fascist systems, in believing that man must belong body, mind and soul to the State, deny man's essential humanity, but the democratic system, by striving to make the State belong to man, is founded upon man's essential humanity.

Democracy! Our enemies both within and without jeer because we are shy of defining it. Can one define a sunset or one's deepest emotions? So with democracy, for it embraces our total being, and here is what a regimented mind cannot grasp. We know what democracy is not, and that, to my way of thinking, is the important point. What we want to have is too often shallow, unsubstantial, unreal; but what we do not want to have is far more positive, far more substantial, far more real—contradictory as it may sound.

In other words, what we do not want to have shapes our lives far more than what we want to have, and we do not want to have regimentation. We Canadians are individualists, whether rugged or smooth, and we reject the principle of dictatorship, whether it be of the Government, of capital,

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of labour, or of bureaucracy. To be regimented to meet and beat savage aggression is one thing but to be regimented in peacetime is quite another; and it behoves us to be vigilant to see that we make an end of it when victory is ours: to see that through some quirk of fate no rulers are put over us who may want to give regimentation of economy in peace a trial.

And do not let us have any illusions. When victory is won, our present bureaucracy will not voluntarily or tamely relinquish their new-found authority. They will, in fact, fight to the last spool of red tape to preserve this thing so sweet to small minds.

How then are we to regain our economic liberties? Here is the greatest problem, which, second to winning the war, takes prior rank before all. Its solution will depend upon ordinary men like you and me. It will depend upon our toughness of spirit, upon our stamina, upon our ability to keep the ultimate objectives of democracy and freedom of enterprise clearly before us while we are travelling through the uncertain twilight, which will separate the controlled economy of wartime from the dawn of a new world of peace in to which, in God's appointed time, we shall emerge.

But before discussing how we can retain our economic liberties in the post-war era, let us examine what kind of world we shall be living in after victory.

As I have stated before, I am assuming that we, the United Nations, will achieve a complete military victory—a victory so complete, so utter, that not only would the aggressor nations be subdued but that they would be placed in a position where they can never again rise to strike down their defenseless neighbours. But this is not enough. Our victory must be so unquestionable that the nations of this earth can settle down to build up their shattered economies, freed at last from that ever-present fear of aggression, fear of invasion, fear of servitude, which has gripped their hearts and governed their minds ever since the growing despotic might of Germany and Japan began to cast its shadow over this earth.

If fear of invasion, fear of war, fear of blockade, and the gnawing necessity of preparing for these eventualities, are to continue to govern the economic life of nations, then there is no hope of early or permanent world recovery.

Were Germany, for instance, to continue the manufacture of Buna rubber or synthetic gas, at exorbitant cost, merely to assure herself of these raw materials in the event of war; if Italy were to grow wheat rather than import it from the Argentine as an assurance against starvation in the event of a conflict, and restrict emigration so as to keep her manpower at home for the same reason; if the agricultural countries of South America were going to continue their process of industrialization so as to be independent of Europe and North America in the event of another world war; were England to proceed with the development of her agriculture so that she would be more self-supporting should her lines of communications be cut by hostile nations—then the victory for which we are fighting would indeed be a hollow one, and the peace which we would achieve would be but an armed truce.

But I am satisfied that these things will not come to pass. I am satisfied that the freedom-loving nations of the world, being at last aroused, will

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plow the furrow to the end, and that they will not lay down their arms until a solid and lasting peace has been established.

Human nature being as it is, I have no illusions concerning the possibility of maintaining world peace without armed strength, any more than I believe that peace could be maintained in this City of Toronto without a police force.

Nor do I believe either in the theories of an international army under the League of Nations. To my mind, the task of ensuring a lasting peace will devolve upon the four great "have" nations of the world, the nations which desire no territorial aggrandizement, the nations which have all to gain from peaceful and prosperous neighbours. I am referring to the United States of America, Great Britain, China and Russia. They and they alone should maintain a military machine of such proportions that international law and order would be made to prevail, and thus, by preventing military or economic aggression, would impart to other nations that sense of peace and security which will enable each and all of them to devote their energies to rebuilding their shattered economies.

After Waterloo the world enjoyed a long period of peace, of immense economic development, and of prosperity. This peace was based upon the unchallenged might of the British Navy. I believe that it is not too much to hope that, when once this war is won and over, we can look forward again to a long era of peace, one in which our children and our grandchildren will be spared the horrors and devastation of war, and that this peace will be guaranteed by the strength of these four nations which, differing in so many respects, yet are united by a common hatred of the things which the aggressor nations stand for, and a common desire to free the world once and for all of international banditry and oppression.

Assuming, therefore, that these things come to pass, the establishment of peace will, to my mind, be followed by a period of prosperity, of replenishment, of distress buying, or filling up the depleted shelves, of rebuilding, of reconstruction. This undoubtedly will be a period of great activity, when industry, agriculture and commerce, and particularly industry, will have to be demobilized so to speak—will have to be switched over from the tasks of war to the less dramatic but more satisfying tasks of peace.

It is, of course, impossible to say how long this period of reconstruction and prosperity will last. Much will depend upon the duration of the present conflict and, therefore, the state of exhaustion in which the world will find itself. It is a fair assumption, however, that after the first rush of replenishment and rehabilitation is over, a period of depression, of convalescence, and of slow healing will follow. It is during the era of prosperity immediately following peace, however short-lived this may be, that militant and vigilant democracy must undertake the task of regaining our economic independence, of loosening the grip of the multitudinous control which we, the people, have voluntarily accepted during these years of conflict.

It stands to reason, however, that a return to complete freedom of enterprise must be a gradual process. If the world were to regain overnight the economic freedom of, say, 1913, it would probably be thrown into indescribable chaos. No, however much we may be yearning for the good old days of rugged individualism, the ties of governmental control can only be loosened gradually. There will be a job of world reconstruction, of rebuild-

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ing, of sorting-out to do, which is beyond the compass of undirected individual effort.

In the period immediately following cessation of hostilities, for instance, the continent of Europe, the isles of the southwest Pacific, India even, may be so impoverished that they will be unable to buy the foodstuffs or the raw materials necessary for their rehabilitation. Private enterprise could not extend the necessary credit to put these nations back on their feet again, and this would have to be done under government supervision and control.

The gradual process of lowering tariffs and removing trade barriers, which is a part of the Atlantic Charter, could not be accomplished under complete freedom of enterprise without great losses to individuals, because it stands to reason that this process cannot be accomplished without the abandoning of industries, built up artificially in different countries under protective tariffs or quotas of importations. In other words, if the Argentine is to resume her wheat shipments to Italy, she must be prepared to sacrifice her vineyards; and likewise, if the United States is to ship more cars to France or more farm machinery, she must be prepared to import more perfume, or silks, or wine from that country.

This process of turning back the rivers of international trade to their old channels obviously cannot be done without great sacrifice to private interests, and, therefore, without compensation from the State. In fact, I doubt very much whether the world will ever go back to—or whether it is wholly desirable that it ever should go back to—the economic system of pre-war days, and that being so, the freedom of enterprise of the future will not necessarily be that which we knew in the days gone by.

The economic peace structure of the future—unless I am much mistaken—will be built upon three pillars: (1) equitable distribution of raw materials throughout the world; (2) the stamping out of national economic banditry; (3) the gradual lowering of tariffs and economic barriers of all sorts. Such policies cannot be put into effect without some superstructure of international control, and this inexorably carries with it a curbing of free enterprise of the 1939 vintage.

But underneath this edifice of governmental control rugged individualism can still find its place, and the great task which lies ahead of us is to see to it that throughout the long period of reconstruction and resettlement which will follow the war, no matter how gradual be the process of decentralization, our ultimate goal be that of free economy. If you and I are true to this task and are equal to it; if in this fight against autocracy, we do not ourselves become infected by its foul disease; if through our flaming faith in democracy we can steer our way through the twilight between controlled economy of war and the ultimate goal of free enterprise after peace is established, then I believe that we shall be justified in looking forward to the future with confidence—yes, with unbounded optimism.

I do not hold with those who believe that the world in the future will be a less comfortable, a less happy, a less healthy, or a less prosperous one than the one we knew in the days before the war. I believe, on the contrary, that with all the new skills, the new ideas, the new products, the new methods, and the new materials which have been planned and thought out and developed during this war, coupled with the throwing up of great new markets, particularly in China, in India, perhaps in Russia, we can look

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forward to a world where the standards of living of the masses will be higher than has ever been known before; a world in which perhaps the wealthy will not be wealthier, but one in which the poor will be richer, and where the opportunities for the masses of men will be greater than ever before.

But, in closing, let me say again that this bright prospect is solely dependent upon complete military defeat of our enemies and upon our own ability to re-establish and maintain in the years of reconstruction the everlasting principles of democracy and freedom of enterprise. I couple them together because history has taught us that they are interdependent. If we lose our economic freedom, we shall lose our political freedom also.

Let us, therefore, to the task of winning this war, but let us also be ever vigilant, yes, be ever militant, in the preservation of this essential thing, this priceless gift, which has been handed down to us by our fore-fathers—democracy.

Income and Excess Profits Taxes as They Relate to Corporations

By G. E. FOOTIT, C.A.

Of the Income Tax Branch, Department of National Revenue

An Address Before the Society of Industrial and Cost Accountants of Ontario,
Ottawa Chapter, September 28, 1942

In the course of my address I shall be referring to the following:

1. Standard Period.
2. Standard Profit.
3. Taxation Period.
4. Capital Employed.

Let us first ascertain that you are familiar with the meaning of each of these terms.

(a) Standard Period comprises the calendar years 1936-1939, both inclusive, or such years or parts thereof since the 1st of January, 1936, during which the taxpayer was in business.

Provided that where the profits in any one of such calendar years after adjustments as provided in Section 4 of the Excess Profits Tax Act were less than 50% of the average of the profits for the remaining years of the Standard Period the taxpayer may designate as his Standard Period the remaining years aforesaid.

(b) Standard Profit means the average yearly profits in the Standard Period.

1. Provided that for the purpose of this section profits shall be deemed to have accrued on an equal daily basis throughout any fiscal period or portion thereof.

2. Provided further that losses incurred by the taxpayer during the Standard Period shall not be deducted from the profits in the Standard

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Period, but the years of losses shall nevertheless be counted in determining the average yearly profits during the Standard Period.

3. Provided further that a taxpayer's Standard shall not be deemed to be less than \$5,000.00 before any adjustment is made in accordance with the Act.

4. Provided that Standard Profits shall not include for the purposes of this Act property in any form received by a taxpayer deemed to be the payment of a dividend under Section 19 of the Income War Tax Act.

(c) **Taxation Period** means the period subsequent to January 1st, 1940.

(d) **Capital Employed** in the Standard Period is the capital at the close of the years 1935-36-37-38 or at the beginning of the 1936-37-38 and 1939 periods.

In order to make the problems as simple as possible I have drawn up an example which covers the main points involved in computing Capital Employed, Standard Profits, Adjustments and Calculation of Tax Payable.

Standard Profits

Assessed Profits Prior to Adjustments	Adjustments at 7½%	Revised Standard Profits
1936 10,000.00	add 6,000.00	16,000.00 Eliminated
1937 116,000.00	add 4,500.00	119,500.00
1938 118,000.00	subtract 1,500.00	116,500.00
1939 127,000.00		127,000.00
Divided by 3		363,000.00
Revised Standard Profit		121,000.00
Capital Employed		

January 1st or Beginning of Fiscal Period ending in	7½% of	Adjustments as shown above
1936 100,000.00	7½% of 80,000.00	6,000.00 add
1937 120,000.00	7½% of 60,000.00	4,500.00 add
1938 200,000.00	7½% of 20,000.00	1,500.00 subtract
1939 180,000.00		

The following example shows how the Capital Employed at January 1st, 1936, was arrived at and the same basis is used for each year of the Standard Period.

Capital Employed, January 1st, 1936

Capital Stock	90,000.00
Surplus	25,000.00
Capital Surplus	10,000.00
Reserve for loss on Investments	10,000.00
	135,000.00

Deduct:

Income Tax Liability not set up	10,000.00
Investments in Canadian Stocks	5,000.00
Unproductive Assets	10,000.00
Difference between Life Insurance Premiums and Cash Surrender Value	2,000.00

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Excess of Net Book Value of Fixed Assets of the Company over Department Net Value	3,000.00
Where Government has given a subsidy to build the Asset, amount of subsidy	5,000.00
	35,000.00

Capital Employed as shown in example at Jan. 1, 1936 100,000.00

Now let us look at the effect of the $7\frac{1}{2}\%$ adjustments.

Assessed Profits Prior to Adjustments

1936	10,000.00	(Eliminated as it was below 50% of the average of the three remaining years).
1937	115,000.00	
1938	118,000.00	
1939	127,000.00	
	360,000.00	
÷ 3	120,000.00	

Adjusted Standard Profits for Our Schedule

1936	Estimated since it was below 50% of the average remaining years.
1937	119,500.00
1938	116,500.00
1939	127,000.00
	363,000.00
÷ 3	121,000.00

It can be seen that we have increased our Standard Profits in the Standard Period by means of $7\frac{1}{2}\%$ adjustments to the extent of \$1,000.00.

Now we come to Capital Employed in the Taxation Period.

This is taken from the Balance Sheet at January 1st, 1940, or at the beginning of the fiscal year ending in 1940 where the fiscal period does not coincide with the Calendar Year.

Capital Employed in the Taxation Year is computed in the same manner as in the Standard Period with the following further adjustments that are only given effect to in the Taxation Periods.

Let us say at January 1st, 1940, our Capital Employed per the Balance Sheet and after giving effect to the same adjustments as in the Standard Period amounting to \$175,000.00.

Then this must be further adjusted by means of the following which apply only in the Taxation Period:

Capital Employed at January 1st, 1940, before special adjustments	\$175,000.00
Add Unpaid Dividends at December 31st, 1939	5,000.00
	\$180,000.00
Less $\frac{1}{2}$ Dividend Paid in 1940 (\$40,000.00)	20,000.00
	\$160,000.00
Capital Employed at January 1st, 1940	\$160,000.00
Capital Employed at January 1st, 1939, was	\$180,00.00

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Capital Employed at January 1st, 1940, is	160,000.00
Decrease in Capital Employed	\$ 20,000.00
Decrease at $1\frac{1}{2}\%$ on \$20,000.00 would be	\$ 1,500.00
However since the upward $7\frac{1}{2}\%$ adjustments in the Standard Period were only \$1,000.00, the downward adjustments in the Taxation Periods are limited to \$1,000.00, not \$1,500.00, which is $7\frac{1}{2}\%$ of the decrease in Capital Employed at the beginning of the Taxation Period unless the decrease was accompanied by an equivalent reduction in Capital Stock.	
Adjusted Standard Profit was	\$121,000.00
Less $7\frac{1}{2}\%$ adjustment as above	1,000.00
	\$120,000.00

Calculation of Tax Part I.

Let us assume the 1940 Assessed Profits were	\$200,000.00
Tax at 12% would be	24,000.00

Calculation of Tax Part II.

Assessed 1940 Profits	\$200,000.00
Less Revised Standard Profit for 1940	120,000.00

Income for 1940 in Excess of Standard	\$ 80,000.00
Less Income Tax at 18% on \$80,000.00	14,400 00

Net Amount subject to Excess Profits Tax	\$ 65,600.00
Excess Profits Tax payable at 75%	\$ 49,200.00

Since the tax payable under Part II. exceeds that calculated under Part I. then the company has to pay whichever is the greater, which in this case is \$49,200.00.

The examples given were for the purpose of making sure that you are familiar with the fundamental principles of arriving at Capital Employed and the adjusted Standard Profit applicable to the taxation year.

For the year 1941 the same basis is used as in 1940 except the rate of tax under Part I. increased from 12% to 22%.

Now we are in a position to review the new basis outlined in the Budget Speech of Hon. J. L. Ilsley, Minister of Finance, on June 23rd, 1942.

Here is the new simplified formula for determination of combined liability under the Corporate Income Tax and Excess Profits Tax.

1. If your taxable profits are below \$5,000.00 before shareholders' salaries, you pay—

18% Income Tax on Taxable Profits.

12% Excess Profits Tax on Taxable Profits.

2. If your taxable profits are over \$5,000.00 apply the following test:

(a) Take $116\frac{2}{3}\%$ of your Standard Profits as determined for Excess Profits Tax purposes.

If current taxable profits are less than $116\frac{2}{3}\%$ of Standard Profits your combined tax is 40% of all current taxable profits.

If current taxable profits are more than $116\frac{2}{3}\%$ of Standard Profits

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your Excess Profits become subject to the 100% tax. See examples shown for computation.

3. Once your profits rise above 116 $\frac{2}{3}\%$ of Standard Profits (and all excess profits become subject to the 100% tax) you are eligible for the post-war refund of 20% on all additional excess profits.

4. Amount of the post-war refund is calculated as follows:

(a) Deduct 116 $\frac{2}{3}\%$ of your Standard Profits from your total taxable profits.

(b) The refund will be 20% of all remaining excess profits.

For your guidance a summary of the rates presently in force and those applicable from the first of July, 1942, are as follows:

Rates of Tax to 30th June, 1942	Rates of Tax from 1st July, 1942
1. Income Tax	1. Income Tax
2. Excess Profits Tax on total	2. Excess Profits Tax on total
profits	profits
or	12%
3. Excess Profits Tax on Ex-	3. Excess Profits Tax on total
cess Profits	profits
(The greater of 2 or 3). 75%	10%
	or
	4. Excess Profits Tax on Ex-
	cess Profits
	100%
	(The greater of 3 or 4).

Examples of the above are given below.

The following examples are calculated on the basis of a full year's operations being subject to the new rates for corporations:

1. Taxable Income (presuming that no payments to share-holders)	\$ 4,000.00
Income Tax @ 18%	\$ 720.00
E. P. Tax @ 12% (3rd Part)	480.00
<hr style="border-top: 1px solid black;"/>	
Total Taxes Payable	\$ 1,200.00
2. Taxable Income	\$ 11,500.00
Income Tax @ 18%	\$ 2,070.00
E. P. Tax @ 12% (3rd Part)	1,380.00
E. P. Tax @ 10% (1st Part)	1,150.00
Less Standard Profits	10,000.00
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	\$ 1,500.00
Less Income Tax and E. P. Tax under 3rd Part	
or 30%	450.00
<hr style="border-top: 1px solid black;"/>	
	\$ 1,050.00
<hr style="border-top: 1px solid black;"/>	
Tax at 100% (2nd Part)	\$ 1,050.00
However since the tax at 10% rate is greater than	
tax at 100% the former is payable.	
<hr style="border-top: 1px solid black;"/>	
Total taxes payable	\$ 4,600.00
3. Taxable Income	\$ 17,000.00
Income Tax @ 18%	\$ 3,060.00
E. P. Tax at 12% (3rd Part)	2,040.00

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E. P. Tax @ 10% (1st Part)	\$ 1,700.00	
Less Standard Profits	10,000.00	
	\$ 7,000.00	
Less Income Tax and E. P. Tax under the 3rd Part or 30%	2,100.00	
	\$ 4,900.00	4,900.00

Tax at 100% rate is greater than tax at 10% rate
therefore the former applies.

Total taxes payable	\$ 10,000.00
Refundable Portion:	
Taxable Income	\$ 17,000.00
Less 116.66% of Standard Profit	11,666.67
	\$ 5,333.33

Refundable Portion is 20% of \$5,333.33, or \$ 1,066.66

Many of you will be wondering how to compute the taxes payable for 1942 when you have the old rates for half the year and new rates for the other half, so I am giving you an example of a company which is subject to the 100% rate.

Let us say the company's fiscal year ends September 30th, 1942.

Standard Profits of say 1,000,000.00

Profits for year ended September 30th, 1942 2,000,000.00

Thus we have the following breakdown of the profit to each of the two periods, i.e. that portion taxable at the old rates and that portion taxable at the new rates.

Profits to June 30th, 1942— $273/365 \times 2,000,000.00 =$ 1,495,890.42

Profits to Sept. 30th, 1942— $92/365 \times 2,000,000.00 =$ 504,109.58

	2,000,000.00
Old Basis on Profits to June 30th, 1942	New Basis on Profits June 30th to September 30th, 1942
Profits 1,495,890.42	Profits 504,109.58
Less Standard Pro-rated 747,945.21	Less Standard Pro-rated 252,054.79
	252,054.79
747,945.21	
Less 18% 134,630.14	Less 30% 75,616.44
	75,616.44
613,315.07	
E.P.T. @ 75% 459,986.30	E.P. Tax @ 100% 176,438.35
	176,438.35
Income Tax @ 18% 269,260.28	Income Tax 18% 90,739.73
E. P. Tax 459,986.30	E.P. Tax 12% 60,493.15
	60,493.15
729,246.58	E.P. Tax 100% 176,438.35
	176,438.35
	327,671.23

Corporations—Payment of Taxes by Instalments

A most important feature of the new Budget will require corporations

COST AND MANAGEMENT

with fiscal years ending December 31st, 1942, and thereafter, to pay their income and excess profits taxes in twelve monthly instalments. Instalments shall be paid as follows:

- (a) During the first eight months in such period, an amount equal to one-twelfth of such tax as estimated by it on its income for the year last preceding the taxation year or on its estimated income for the taxation year at the rate for the taxation year;
- (b) During the last four months in such period, one-fourth of the amount by which the tax payable as estimated by it on its income for the taxation year at the rate for the taxation year exceeds the aggregate of:
 - (i) The amounts paid under paragraph (a) of this subsection, and
 - (ii) The amounts deducted during the taxation year under subsection one of section ninety-two of this Act from interest or dividends forming part of its income.

Thus companies with fiscal years ending December 31st, 1942, stand to make their first compulsory instalment in July, 1942. And a company with a fiscal year ending January 31st, 1943, makes its first compulsory monthly payment in August, 1942, and so on. But this compulsory instalment feature does not apply to fiscal years ending before December 31st, 1942. For example, a company whose fiscal year ends November 30th, 1942, will not be subject to the compulsory instalment payment in respect of the current year; its first compulsory instalment payment in respect of the tax on profits for the year ending November 30th, 1943, will be due in June, 1943.

Before closing I feel that a few remarks regarding inventory reserves should be made.

Inventory Reserves

No inventory reserve will be allowed unless tax is payable under the 75% or 100% rates.

The normal quantity may be taken as follows:

- (a) Amount of stock in trade on hand at the end of the 139 fiscal period.
- (b) If such amount exceeds or is less than the average of the inventories of the Standard Period by 5% then the average is to be taken as the normal quantity. Provided that where the inventory in any one of the standard period years is less than 25% of the average inventory of such standard period, the taxpayer may designate as his normal inventory the average of the inventories of the remaining years of the standard period. If the taxpayer has been in business only two years then the average of such years must be taken.

The inventory allowance must not bring prices below the level of 31st August, 1939, or where the fiscal period closes prior to that date then at the date of the 1939 fiscal period.

In every case factual evidence must be submitted of the inventory in respect of which the claim is made. A test or percentage check as applying to the whole will not be accepted. If the inventory reserve is not set up in the taxpayer's books of account it is required that a notation regarding it be made in the published balance sheet.

INCOME AND EXCESS PROFITS TAXES

The memorandum states that the reserve must be taken each year by the taxpayers who are from year to year consistently taxable at the 75% rate.

The only exception to the above is in the case of taxpayers who for any reason did not claim a reserve in 1940. Such taxpayers must claim the reserve in 1941 for the amount to which they may be entitled by reason of the price increase occurring in the inventory between 1939 and 1941 and the same will be allowed to the extent that it reduces taxation under the 75% scale in 1941. If such taxpayers do not claim the reserve in 1941, they will be entitled to a reserve in 1942 only to the extent of the price increase occurring since 1941.

The reserve is cumulative to the extent that any portion not previously utilized due to the fact that it would have reduced taxation under the 12 or 22% rates must be utilized as follows: For taxpayers who claimed the reserve in 1940 and 1941 or 1941 only, the cumulative portion of the reserve is calculated from 1939 and must be utilized in each subsequent year to the extent that it reduces taxation under the 75% scale. In the case of those taxpayers who did not claim the reserve in 1940 or 1941 as referred to in the preceding paragraph, the cumulative portion of the reserve is calculated only from 1941 and must be utilized in each subsequent year to the extent that it reduces taxation under the 75% scale.

Examples of the operations of the reserve are shown as follows:

1. Reserve Utilized Each Year

1940	
Amount of reserve proved, based on price increase between 1939 and 1940	\$ 40,000.00
Less amount required to reduce or eliminate taxation under the 75% scale	25,000.00
1941	
Amount of reserve proved, based on price increase between 1939 and 1941	80,000.00
Less amount utilized in 1940 as above	25,000.00
Amount required to reduce or eliminate taxation under the 75% scale in 1941	35,000.00
	60,000.00

2. Reserve Not Utilized in 1940 but Taken in 1941.

1940	
No reserve claimed.	
Amount of reserve proved, based on price increase between 1939 and 1941	70,000.00
Less—Amount utilized in 1940	N I L
Amount required to reduce or eliminate taxation under the 75% scale in 1941	55,000.00

3. Reserve Not Utilized in 1940 and 1941 but Taken in 1942.

1940	1941	
No reserve claimed.	No reserve claimed.	
Amount of reserve proved based on price increase between 1941 and 1942		30,000.00
Less—Amount required to reduce or eliminate taxation under the 100% scale in 1942		25,000.00
		345

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Visible Cards and Administration

By W. Bertrand Ashby

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Speaking by and large, it may be accepted that any device capable of reducing administration to something approaching certainty is worthy of careful study, and it is extremely doubtful whether the accountancy sections of business in general have devoted adequate thought to the possibilities of these systems.

The principle of card indexes, ledgers and statistical forms has, of course, long been known, though there are yet some accountants who retain their apparently ineradicable objections to any form of record that is not in bound form.

In comparison with ordinary card systems there can be but one view—"if it can be recorded on cards, then the visible card will record it better."

Visible cards may be defined as cards held in some form of tray in such a manner as allows a small portion of each card to be visible, the whole system being based on the idea that the exposed edges are available for signalling of information.

Because bound, loose-leaf and ordinary card records are in their nature extremely secretive, it is only after definite enquiry and tabulation of their contents that it is possible to extract from them their information, with the result that the heavy expenditure of time and trouble frequently debars such enquiry and, even in cases where the data would prove a useful aid in the administration of a business, expense prevents its furnishing by the office.

Visible cards, though somewhat costly to instal, can be used in such a manner as will provide effective and up-to-the-minute charting and as the required data can be provided for as and when required, any necessary signals can be planned almost from day to day, though it is realized that only on a standardized period basis will the information be useful.

Put it this way. A company engaged on wartime activities requires, say, a daily control of contracts. By means of cards it records the progress of each individual one, using pre-designed forms to give the information in total form.

Should the company require details showing how contracts stand, then this data must be patiently extracted and even then the management is faced with a mass of figures, which, as every accountant appreciates, cannot convey a clear impression to the average mind.

By using the signalled cards, the management simply pulls out a drawer and, in one brief glance, sees the whole picture graphically displayed, any individual details being immediately noticeable from the position of any given signal on the edge of any card.

How Signalling is Provided.

In the main, there are two forms of information; the purely temporary data and the permanent data.

By temporary data is meant the day by day position of a contract, account or department. This is secured by the provision of temporary detachable

COST AND MANAGEMENT

signals that can be shifted on or off the edge of a card or moved from one position to another, different colours indicating different facts.

By permanent data is meant that mass of built-up details which provides a permanent history of the contents of the card. An example of this might be the number of calls made by a traveller on a customer and the extent of orders obtained, or the number of departments from which an order was filled.

The first class of data enables the firm to keep up on a day to day basis; e.g., watching past-due accounts or positions of stocks. The second provides history for study and gives a basis for future activity.

The permanent history is obtained by means of coloured lines, blocks and the like which are filled in on the available edge, either front or back of the cards as the visible idea makes the whole of the back edges available for this permanent history.

Thus, detachable signals on the front edges indicate daily trends while the reverse edges provide the history at the moment of inspection.

The Error of the Circumscribed View.

If the executive in charge of the office adopts the view that accounts are purely office possessions and that only the financial staff has any right to know their contents, it is possible that the whole concern may be adversely affected.

No sane executive would permit unrestricted interference with accounts, it is true. But it cannot be gainsaid that there are considerations which would fully justify the sales executive in insisting that he, too, is interested in the history of collections and frequency of orders, or the credit manager in asking that he be quickly advised of changes in position of accounts.

Because of the difficulty in securing informative data, many firms are compelled to duplicate records which could be obviated by means of visible records subject only to reasonable rules governing the use of the trays.

It should be remembered that, for the most part, records follow ordinary courses:—90 per cent of accounts or other records remain on a normal basis. It is the other 10 per cent. that determine whether a loss or profit occurs. It is, therefore, to be assumed that anything which will throw this 10 per cent into bold relief will warrant thought.

Thus, reasonable daily access to a visible system will probably result in an important increased capacity on the part of the recording departments to serve the whole business, whether daily reports are supplied in tabulated form or whether senior executives are afforded graphical presentation of daily data.

It is surely unwise to duplicate costly records, and if sales or credit departments must expend heavy sums in order to secure information already existent in the firm's ledgers, then it is obvious that the money so used cannot be employed elsewhere.

Purposes for Which Visible Records are Suitable.

Unless ledgers are posted on machines which render signalling difficult, the financial accounts of all customers can be as easily kept on visible cards as on loose sheets or in bound books.

If books are hand-written, then the visible card is considerably faster, even allowing for signalling.

VISIBLE CARDS AND ADMINISTRATION

If stock records are to be kept, there is little that visible cards cannot perform with advantage.

If sales department records are employed, then the visible form is obviously superior to most others and the sales-manager who is prepared to keep his staff up to its work will have good cause to appreciate this.

Perhaps it might be mentioned that signalling is not always eagerly performed, because staff members are not "fully sold" on the importance of the work of providing visible information.

But once the staff is satisfied as to the importance to an executive of this information, be quite sure that a new interest will show.

Staff records lend themselves to signalling as there are many things that the executive desires to know in a large business where the ability to keep posted on each staff member is lacking.

Thus, examinations passed, days absent through ill-health or other causes, suggestions made, etc., are all easily recorded by coloured signals.

Managerial control of salesmen, stages reached in contracts, lay-bys, adjustments of disputes, collections, and similar frequently-recurring matters—indeed, most records that can be presented by graphs or charts lend themselves to the idea of visibility.

The student who is well versed in the possibilities of the visible-card system should find ample opportunity of turning his knowledge to good account and, as there is always some degree of "showmanship" in the presentation of up-to-date systems in connection with office work, he should not entirely overlook this way of keeping himself before the administrative eye.

An hour or two spent in one or other of the systems houses will surely be well repaid and, as the possibilities are so endless, practically any ordinary employee can secure at least one good idea to make work less laborious and far more interesting in his own immediate surroundings.

The writer has had many pleasurable moments of this sort.

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